



AGENDA ITEM: 8

NORTH WALES FIRE AND RESCUE AUTHORITY

18 June 2012

FINANCIAL PERFORMANCE 2011-2012

Report by Ken Finch, Treasurer

Purpose of Report

- 1 This report is to provide Members with a review of the financial performance of the Authority for 2011-12.

Introduction

- 2 Due to legislative changes in recent years the audited accounts need only be presented to Members for approval by 30 September. However, to ensure Members are kept up to date with regard to the financial position of the Authority this report details the financial activity for the year 2011-12.
- 3 The first part of the report reviews the revenue expenditure for 2011-12 against budget with the financial breakdown included in Appendix A. The second part of the report comments on Reserves and Provisions held by the Authority; the provisions and the proposed changes are detailed in Appendix B. The next section of the report looks at the schemes that were grant funded with a detailed breakdown in Appendix C. The final part of the report discusses capital activity for the year; the details can be found in Appendix D.

Revenue Activity

Employees

- 4 As can be seen from the graph, a large proportion of Fire and Rescue Service expenditure relates to pay; 71% for 2011-12. This is a lower proportion than in 2010-11 where pay made up 73% of expenditure. Overall the net pay budget was underspent by £668k which is slightly higher than the estimate of £548k provided to Members in March 2012. The additional saving is mainly due to reduced training costs where additional grant monies have offset expenditure in the last few months and a prudent approach being taken on the reporting of the outturn estimates for incident fees so any possible contingencies would be covered.
- 5 The pensions' budget is overspent due to some ill health retirements in the year; these had not formed part of the original estimate and are not funded through the pensions' account.
- 6 The support and prevention staff budget is underspent as some of the Community Fire Safety posts which were to be funded from savings on the ALP posts have not been filled. This is due to a restructuring exercise and the need to make savings in 2011/12 to carry forward into 2012/13.
- 7 The underspend on Wholetime firefighters is fairly modest at £199k against a budget of £13.5m. The underspend is due partly to savings against the budget for overtime and retirements during the year where the posts have not been filled again due to the need to make savings in future years.
- 8 The underspend on retained firefighters, £206k, is due to a drop in incident fees over the last couple of months of the year and a temporary reduction in the number of retained firefighters employed by the Authority.
- 9 The overspend on the Miscellaneous budget heading is due to redundancy payments that have been incurred in the year mainly due to a re-structure of the administrative staff that provide support to the Retained Duty System stations. The costs will be offset against savings that will be realised in future years due to a reduction in support staff posts.

Premises

- 10 The deficit on the Rhyl Community Fire Station trading account is posted to revenue at the end of the financial year. The deficit on the account has decreased by £18k compared to last year due to a staffing re-structure. The trading account for the Rhyl Community Fire Station is budgeted to break even over the year. However, no account is taken of the additional work carried out by the staff for other areas of the Service such as Community Fire Safety.
- 11 The repair and maintenance budget will be overspent due to the reclassification of some smaller items of spend from capital to revenue. This will result in some savings in future years on capital financing charges as the capital required will be reduced.

Transport

- 12 Overall the Transport budget is slightly underspent with overspends on some budget heads being offset by underspends elsewhere. The increases in the price of fuel, insurance and components have been offset by reduced travelling costs due to the decrease in the work force.

Supplies

- 13 Under the Supplies and Services heading the main area of underspend is on Operational Equipment which is mainly due to an increase in stock levels where the change in the value of the stock is offset against revenue. This is a result of re-evaluation of stock before moving onto a new stock control system.
- 14 Expenditure on Printing and Stationery has reduced due to changes in working practices and smarter procurement. Fire Safety costs have also reduced due to hydrant repairs being less than anticipated due to an overpayment in the previous year.
- 15 Computer costs are significantly underspent at £180k. This underspend has only materialised at the end of the financial year due to; negotiations with software companies to reduce licence costs and the decision by Welsh Government to fund some

licensing costs which was confirmed at the end of the financial year.

- 16 Communications costs are underspent due to a delay in the roll out of the development work which has resulted in a saving in telephone rental costs in the year.

Agency

- 17 Under Agency the cost of building cleaning and grounds maintenance has increased due to the change in the specification of cleaning and maintenance contracts.

Support Services

- 18 Facilities management costs have increased due to the extra work necessary to ensure all premises meet increased regulatory requirements. However, this has been partially offset by the income generated from capital fees due to work carried out by the department on capital projects and re-negotiation of the rents for joint sites.

Capital Financing

- 19 The debt charges associated with the capital programme are less than the original budget due to the prevalence of low interest rates and the use of short term borrowing outside the PWLB.

Income

- 20 Sales income has increased due to the sale of a number of vehicles that have been de-commissioned.
- 21 The income from Special Service calls is less than budget due to a reduction in the number of incidents that the Authority could charge for.
- 22 The income from Training courses has decreased as a decision was taken to direct staff involved in this work to deliver fire safety advice directly, free of charge, to the business community.

- 23 Interest on investments is less than the budgeted figure due to the low interest rates and a reduction in the amount of cash available to invest.
- 24 Emergency Planning income is reimbursement from the Welsh Government for special projects. This has decreased due to reductions within funding for the New Dimensions programme.

Underspend

- 25 The underspend against budget has been carefully managed to ensure there are sufficient funds available to cover the short term transitional costs as part of the introduction of a rostering system in 2012-13 in preparation for achieving the savings targets that have been set for the 2012-13 budget as agreed by Members in December 2011. The underspend is to be used to fund any overspend due to a delay in reducing the required number of employees to meet the savings target.
- 26 It has also been agreed by Members that £68,000 of any underspend be used to pay the stamp duty and fees for the proposed purchase of Headquarters.
- 27 Members were also in favour of building up a General Reserve to provide some assurance that there are funds available to assist in future years and will mean that the Authority can draw on these funds rather than having to request supplementary contributions from the Constituent Authorities.

Reserves

- 28 A Reserve is defined 'as a voluntary action by the Authority to set resources aside for future schemes'. The Authority held £641k in reserves as at 1 April 2011 and, due to effective budget management, has not had to use reserves to fund expenditure in 2011-12.
- 29 It is prudent for the Authority to build up a General Reserve and it is anticipated that the areas where it will be used will be:-

- any transitional costs involved with the new rostering system;
 - to offset fuel increases not budgeted for; and
 - to cover any contingent liabilities that may arise.
- 30 With the transfer of the underspend for 2011-12 the balance on the reserve will be £928k. The balance on the reserve is not substantial when compared to the general reserves held by the other Welsh Fire and Rescue Authorities.
- 31 Officers have sought further legal advice as to the legal power to provide enhanced discretionary severance payments to firefighters. However, the Authority can pay Statutory Redundancy Pay (SRP) to firefighters so a separate Earmarked Reserve has been created specifically to cover the future costs of redundancies. This reserve will also be used to cover the cost of redundancies for Support staff. The level of the reserve, £300k, has been based on an estimate of the number of firefighters and support staff who may voluntarily apply for redundancy.
- 32 Additional Earmarked Reserves are £68k for fees as outlined in paragraph 27 and £40k for a new Fleet Management System which is currently out to tender.

Provisions

- 33 The Authority has always been able to hold Provisions and a provision is defined as 'funds set aside when the Authority has a present obligation as a result of a past event (legal or constructive) and it is probable that a settlement will be made some time in the future'. The Authority currently has two Provisions which are discussed below.
- 34 The Pension Provision is held by the Authority to cover payments in to the pension fund for ill health retirements and cover the costs of any ill health lump sum payments that are not covered by the pension scheme. A review has been undertaken of the provision and an estimate of future requirements made. It is estimated that after reviewing the current applications for ill health retirements it is necessary to increase the provision by £29k to ensure the balance on the provision is sufficient to meet these requirements.

- 35 The settlement for the back pay for retained firefighters will be made in the June 2012 payroll run. The balance on the provision may not be sufficient to meet the expected costs due to an on going national dispute with HMRC with regard to the liability for tax and national insurance contributions on the back pay due to the individuals involved. If the payment is subject to tax and NIC then the Authority will be liable for making these payments as it is considered that the actual amount to be received by staff has already been agreed and this would be net of tax and NIC. The estimated additional cost is £140k.

Grant Funded Schemes

- 36 The Authority has received funding for a number of schemes mainly from the Welsh Government; the total funding received is in excess of £1.7m. Members will be aware of a number of the schemes and the benefits to the community created from operating them. The larger schemes funded by grant are Phoenix, Interventions, Arson Reduction Team and Firelink. A comprehensive list of the schemes is detailed in Appendix C.

Capital Activity

- 37 The original capital budget was set in December 2010 and was based on new spend and rollovers from previous years. As previously reported to Members a number of schemes had been held back in order that there would be sufficient funding for Wrexham Fire Station. Further delays to the start of the Wrexham project meant that expenditure was less than estimated. The budget has again been rolled forward to ensure there is funding in place for the scheme.
- 38 Members agreed in year to increase the budget for planned maintenance to £700k so that a backlog of works could be undertaken. However, £150k of smaller items of capital spend on maintenance was transferred to revenue for the reasons explained in paragraph 11 above.
- 39 The land required for the new Nefyn Fire Station has been purchased. Plans have been drawn up and work has now commenced on site. The capital budget will be rolled over in to 2012-13 to ensure the scheme can be completed.

- 40 The remodelling of Betws-y-Coed Fire Station has now been included under DDA works and work will commence in 2012-13.
- 41 The programme for replacing Water Tenders has now caught up and the service has taken delivery of a number of new vehicles this year.

CONCLUSION

- 42 In 2011-12 Officers have implemented schemes to meet the future savings targets agreed by Members over a 3 year period. As a reminder the savings target for year 2 of the process (2012-13) is £815k and year 3 (2013-14) £835k. Strict budgetary control has meant that further savings have been made in year 1 to ensure the Authority is in a good position to meet the agreed savings targets in subsequent years. Whilst an underspend of £1.1m may seem high after adjustments required the net underspend is £527k. Members should be aware of the possible future pressures ahead, for example:
- pay increases,
 - fuel increases,
 - Revenue Support Grant cuts,
 - increase in the Employers Pension Contributions,
 - decrease in grant funding,
- on top of the savings targets outlined above. It is therefore prudent to set aside underspends in to Reserves and Provisions to ensure the Authority has some financial safeguard for the future.

RECOMMENDATION

- 43 Members approve the transfer of the underspends in to Reserves and Provisions as detailed on page 3 of Appendix A.